

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Order Instituting Rulemaking to Develop a
Successor to Existing Net Energy Metering Tariffs
Pursuant to Public Utilities Code Section 2827.1,
and to Address Other Issues Related to Net
Energy Metering.

Rulemaking 14-07-002
(Filed July 10, 2014)

**SAN DIEGO GAS & ELECTRIC COMPANY
(U 902 E) REPLY COMMENTS ON PROPOSED DECISION**

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Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (the “Commission”), San Diego Gas and Electric Company (“SDG&E”) provides these reply comments regarding the proposed *Decision Adopting Successor to Net Energy Metering Tariff* (the “PD”) issued in the above-captioned proceeding. Several commenting parties agree with the observation made in SDG&E’s opening comments that the PD fails to comply with the statutory requirements of Assembly Bill (“AB”) 327, as codified at Public Utilities Code § 2827.1.^{1/}

To address the infirmities in the PD identified by SDG&E and other parties, SDG&E, along with Pacific Gas & Electric Company (“PG&E”) and Southern California Edison Company (“SCE”) (together, the “Investor-Owned Utilities” or “IOUs”) have jointly recommended a proposal that is a compromise between various proposals offered by parties to the proceeding (the “Joint Recommendation” or “JR”). Specifically, the IOUs recommend that the PD be revised to adopt a successor tariff that includes the following terms, which would be available to new NEM customers until 2019, when NEM is set to be reevaluated: (i) ensure that residential and small commercial^{2/} NEM customers are charged the full retail rate for each kilowatt-hour (“ kWh”) of electricity they consume from the grid on their otherwise applicable rate (“OAT”), rather than only on the netted-out volume of electricity consumed from the grid; and (ii) provide a fixed export compensation rate for energy exported for a 10-year period. This export compensation rate would be 15 cents/kWh for all installations up to 7% of the IOU’s aggregate customer peak demand, and 13 cents/kWh after reaching 7% of the IOU’s aggregate

^{1/} Assembly Bill (“AB”) 327 (Stats. 2013, Ch. 611). All statutory references herein are to the Public Utilities Code, unless otherwise noted.

^{2/} Small commercial customers defined here as non-residential customers not on demand charge rates.

customer peak demand. Consistent with the PD, beginning in 2018, residential NEM 2.0 customers would be required to take service on a time of use (“TOU”) rate.^{3/} SDG&E submits that NEM customers should not move to TOU rates prior to 2018 since the Commission has yet to determine the appropriate time periods and pricing for TOU rates, consistent with the PD.

Under the JR, NEM customers would be billed for each kWh of energy delivered to them from the grid – just as non-NEM customers are. As is the case for non-NEM customers, the total volume of a NEM customer’s delivered energy for a particular month would be charged on that customer’s monthly bill. Bill credits for exported energy would also be provided on a kWh basis, and would also be credited to the NEM customer on a monthly basis. In other words, NEM customers would receive a monthly bill that reflects (i) charges for the full volume of energy delivered to the NEM customer over the relevant month; and (ii) a bill credit for the total amount of energy the NEM customer exported to the grid that month. At the conclusion of the NEM customer’s annual billing period, the Net Surplus Compensation (“NSC”) true-up process adopted in D.11-06-016 would be applied (just as it is today under the current NEM tariff).^{4/}

Contrary to the suggestion made by the California Solar Energy Industry Association (“CALSEIA”) during the oral argument held in this proceeding on January 12, 2016, the JR is not a new concept. Several parties to this proceeding, including SDG&E, offered successor NEM tariff proposals that de-linked compensation for exported generation from the retail rate design. SDG&E’s proposed default successor tariff, for example, proposed (1) fixed and demand charges for recovery of distribution costs; and (2) a structure that would charge customers at the retail rate for their full volume of delivered generation, while compensating them at a different rate for their exported generation.^{5/ 6/} Likewise, the proposals offered by both

^{3/} For SDG&E, small commercial customers are currently on mandatory TOU rates. (D.12-12-004).

^{4/} Under the NSC rules, a NEM customer whose total exports to the grid over a 12-month period exceeds their delivered energy over the same period (*i.e.*, there is a net sale by the NEM customer) may be eligible for “net surplus compensation” under D.11-06-016. *See* PD, p. 13, footnote 17.

^{5/} *San Diego Gas & Electric Company Proposal for Successor Net Energy Metering Tariff*, filed August 3, 2015 in R.14-07-002 (“SDG&E Proposal”), Attachment A, p. A-40.

^{6/} SDG&E addresses applicability of the Public Utility Regulatory Policies (“PURPA”) to the proposal to de-link the rate for exported generation from the retail rate in its Proposal, noting that “FERC has found that a net billing arrangement *in which the customer-generator receives a credit against its retail power purchase and no ‘net sale’ is made to the utility over the relevant billing period* [here, the monthly billing period] is not a wholesale sale subject to FERC jurisdiction.” SDG&E Proposal, Appendix A, p. A-82. Under the JR, no “net sale” is made in the monthly billing period. The “net sale” occurs, if at all, at the annual true-up and is covered by the Commission’s Net Surplus Compensation rules established in D.11-06-016.

PG&E and SCE included (1) some form of fixed/demand charge; and (2) a structure that would charge customers at the retail rate for their full volume of delivered generation, while compensating them at a different rate for their exported generation.

The JR retains the latter element of the proposals offered by each of the three IOUs, while eliminating the fixed and/or demand charge component in light of the PD's conclusion that adoption of such charges is not appropriate at this time.^{7/} In short, the de-linking concept was a main focus of the proceeding, and an issue that SDG&E and other parties addressed extensively in their respective filings. Thus, the record is very well-developed on the rationale for de-linking exported generation from the retail rate design. The JR marries this de-linking concept with the subsidy step-down concept advanced by the Office of Ratepayer Advocates ("ORA")^{8/} to produce a compromise approach to continuation of the NEM program that is fully transparent, provides greater certainty regarding the benefits to NEM customers, and furthers the goal of AB 327 to prevent a cost-shift to non-NEM customers.

The JR also maintains the benefits for the solar industry conferred under the PD.^{9/} Evidence in the record of the proceeding supports the conclusion that (i) the proposed reduction in export compensation will be offset by the renewal of the federal investment tax credit ("ITC"), which significantly lowers the levelized cost of solar below the assumption in the Commission's Public Tool;^{10/} (ii) the average year-over-year adoption rate for the JR based on analysis under the Public Tool would be an extremely robust 13-14% (without accounting for the ITC) as compared with approximately 16% for the PD's proposal;^{11/} and (iii) under the JR, NEM

^{7/} PD, p. 2.

^{8/} ORA proposed continued compensation of exported generation at the full retail rate, with addition of an "installed capacity fee" that would be introduced through a three-step glide-path that would increase the ICF (thereby decreasing the NEM subsidy) according to adoption milestones. *Proposal of the Office of Ratepayer Advocates for Net Energy Metering Successor Standard Contract of Tariff Net Energy Metering Tariff*, filed August 3, 2015 in R.14-07-002 ("ORA Proposal"), Attachment 1, pp. A-1 – A-3.

^{9/} See discussion in SDG&E Opening Comments, pp. 11-12.

^{10/} The Public Tool was developed assuming a step-down in the federal ITC from 30% to 10% in 2017. Under this assumption, the levelized cost of solar energy was 21 cents/kWh in 2017 under the base case solar costs for systems under 10kW. PG&E/James, Exh. 20, p. 3-5, Table 3-1. The levelized cost of solar with a 30% ITC is 17 cents/kWh in 2017 under the base case solar costs for systems under 10kW – a decrease in levelized cost of 4 cents/kWh. PG&E Proposal, p. 80, Chart "Residential Solar Fixed-Rate PPA Prices (<10kW)".

^{11/} The 13-14% average year-over-year ("YOY") adoption rate calculated for the JR is supported by the data in the record regarding (i) the estimated 9% YOY adoption rate for SDG&E's original proposal, which offered a lower export compensation rate than the JR and would have imposed fixed and

customers would continue to receive a subsidy benefit equal to the cost of their system, resulting in a total benefit – generation benefit plus subsidy benefits - that is more than double the cost of their system.^{12/}

If the Commission declines to adopt the JR, it should at the very least retain the list of nonbypassable charges (“NBCs”) identified in the PD as charges to be paid on the basis of delivered rather than netted generation.^{13/14/} The Commission should reject the proposal made by The Alliance for Solar Choice (“TASC”), Solar Energy Industries Association (“SEIA”), CALSEIA and Vote Solar (together, the “Solar Parties”) to eliminate transmission and the New System Generation (“NSG”) charge from the list of NBCs to be paid on the basis of delivered generation.^{15/} As support for the definition of NBCs contained in the PD, the PD cites to a recent decision renewing PG&E’s Economic Development Rate (“EDR”) tariff. In that decision, the Commission faced a task similar to that set before it here of assisting a specific segment of IOU customers, while at the same time protecting non-participating customers from an unfair cost burden resulting from such assistance.^{16/} Thus, the EDR tariff is an appropriate analog for the NEM tariff – contrary to the assertion made by the Solar Parties, the approach taken to allocating costs to departing load customers is *not* appropriate for NEM because NEM customers remain IOU customers, while departing load does not.

The Solar Parties also incorrectly assert that assessing customers a transmission charge on the basis of delivered (rather than netted) generation will result in over-recovery of transmission charges. This claim is erroneous and misleading. Transmission charges are

demand charges; and (ii) the approximately 16% YOY adoption rate for the PD’s proposed tariff, which includes limited changes to the current NEM tariff and would likely enjoy an adoption rate similar to that of current NEM program (16%). *See Opening Brief of San Diego Gas & Electric Company*, filed in R.14-07-002 on October 19, 2015, pp. -8. The YOY adoption rate for the JR would reasonably be expected to, and indeed does, fall between these two scenarios.

^{12/} See SDG&E Opening Comments, p. 6, footnote 20. The lifetime benefit calculation builds off of values that are in the record as part of the calculation of SDG&E’s annual cost shift, supported by SDG&E’s workpapers.

^{13/} PD, p. 88, footnote 99.

^{14/} The Commission should also eliminate the 20-year grandfather provision proposed in the PD. As SDG&E noted in its opening comments, AB 327’s express inclusion of a transition period solely for NEM 1.0 customers signifies legislative intent to *exclude* NEM 2.0 customers from the right to take service under particular tariff terms for a set period of time. Moreover, as PG&E correctly points out, the payback period for solar systems is 5-8 years. Thus, under no circumstances is 20 years required to ensure recovery of investment costs. PG&E Opening Comments, pp. 12-13.

^{15/} Solar Party Opening Comments, pp. 6-9.

^{16/} D.13-10-019, *mimeo*, p. 9, 21.

recovered on a kWh basis from residential and small commercial customers – when NEM customers fails to pay their fair share of these costs, the shortfall is shifted to non-NEM customers. Requiring NEM customers to pay their fair share of transmission costs will relieve this cost-shift to non-NEM customers, which is precisely the outcome that AB 327 envisions. In addition, the argument offered by the Solar Parties to the effect that NEM customers do not rely on the transmission grid for the entire volume of their delivered generation, and therefore should not pay transmission charges on the basis of delivered generation, reflects a misunderstanding of the basics of how energy is delivered. The transmission system is a critical component of the electrical grid needed for the delivery of energy services to customers. NEM customers rely on the transmission system for *all* delivered generation; the exporting of generation to the grid by NEM customers does not change this fact. The same principle applies to the NSG charge. The NSG charge is allocated to all customers because *all* customers benefit from resources that ensure local reliability. NEM customers benefit from reliable delivery of their entire volume of delivered generation. Thus, it is fair that NEM customers pay transmission and the NSG charge on the basis of their delivered, rather than netted, generation. Further, the arguments made by the Solar Parties for a reduced NSG charge to NEM customers based on presumed benefits that *may* come from the results of the Distributed Resource Planning (“DRP”) proceeding is inappropriate and presumes results that have not occurred.

Finally, the Commission should reject the request by the Solar Parties that the PD be modified to include a specific finding that the Total Resource Cost (“TRC”) test is the “primary test for measuring compliance with § 2827.1(b)(4).”^{17/} Section 2827.1(b)(4) requires that “total benefits of the standard contract or tariff to all customers and the electrical system are approximately equal to total costs.” The TRC test includes participant costs and incentives, and cannot measure whether total benefits to the electrical system are approximately equal to costs. Thus, it fails to provide an appropriate metric for compliance with § 2827.1(b)(4). The Ratepayer Impact Measure (“RIM”) test, on the other hand, does measure cost-shift to non-participating customers and therefore provides the information required by the Commission to comply with the goal of § 2827.1 to establish a NEM successor tariff that prevents a cost shift to non-NEM customers.

^{17/} Solar Party Comments, p. 12.

Respectfully submitted this 15th day of January, 2016.

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